HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Barrie CMA

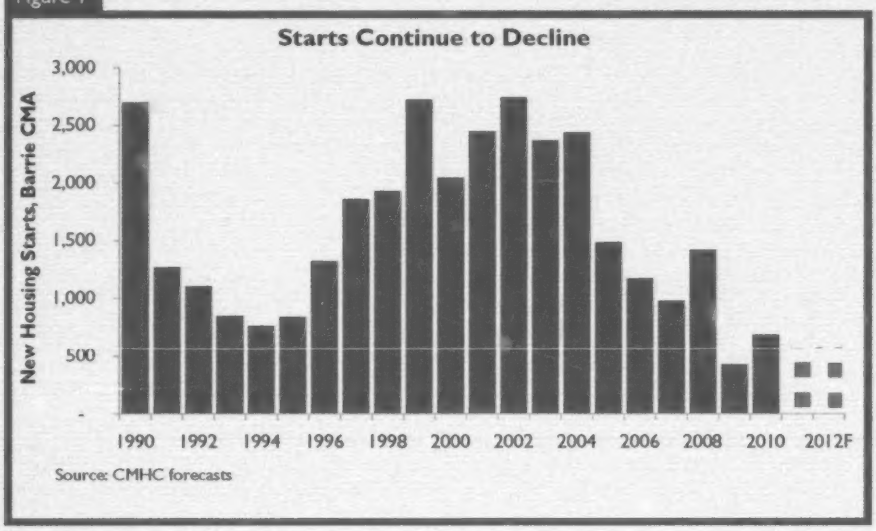
CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Spring 2011

Market at a Glance

- Sales will moderate in 2011 and pick up somewhat in 2012.
- New listings will remain flat, and the market will be balanced in 2011.
- Although starts will decline from the stronger level in 2010, new construction will gain some strength throughout the year and into 2012.
- Stronger employment and income growth will provide offsetting support for housing demand by 2012.

Figure 1



[1] The forecasts included in this document are based on information available as of April 28, 2011.

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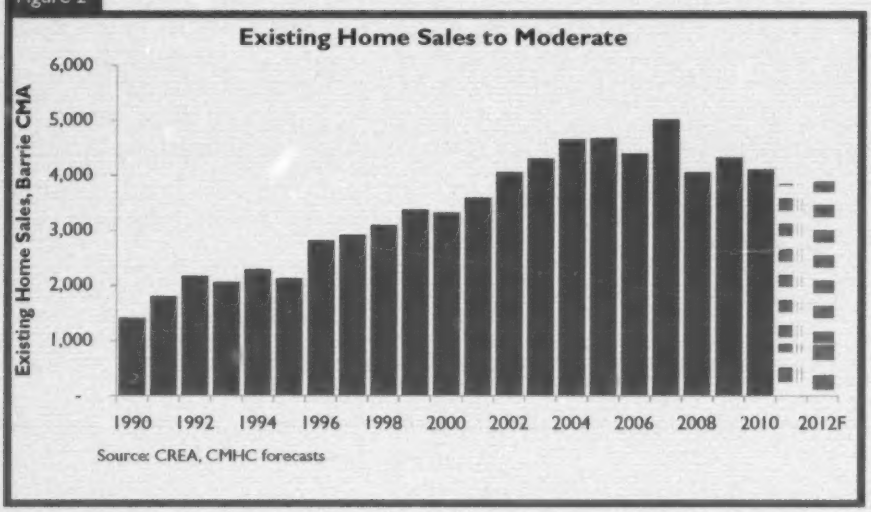
Figure 2



Resale Homes Market

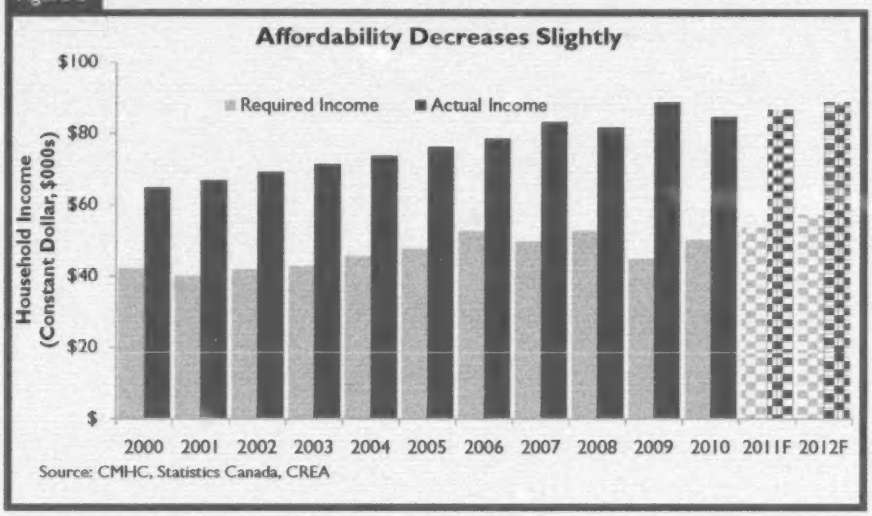
Lower Demand in 2011

Existing home sales will moderate from current levels, before improving later in 2011 and into 2012. Overall, in 2011, existing home sales will finish the year lower than in 2010.

Low mortgage rates and continued growth in the economy supported sales in the last quarter of 2010 and early 2011. Homebuyers, especially first-time buyers, brought forward their home purchases into the last few months of 2010 and the first quarter of 2011 to avoid mortgage insurance changes effective mid-March 2011, as well as, the anticipation of higher mortgage rates. After the increased number of sales in late 2010 and early 2011, sales will moderate as the year progresses. The second and third quarters of 2011 will have more muted activity than usual, as buyers who were contemplating making a home purchase in 2011 have already done so. Not until the last quarter of 2011 and into 2012 will sales increase once again. Although mortgage carrying costs will rise, stronger labour market conditions will help to offset the drag on sales due to the decline in first-time buyers. The Barrie existing home market will be dominated by repeat buyers in 2011 and 2012. However, in the next few years, with an improving economy and more young adults in their prime home-buying years, the pool of first-time buyers will increase, and they will once again become a significant force in the resale market.

Overall, new listings have been flat since 2006. More recently, since peaking in the first quarter of 2010, listings have been trending down. Although the stock of existing homes and the population are increasing, softening sales and little to no price growth in 2011 will keep some potential repeat buyers on the sidelines. With prices easing, new listings will remain flat in 2011, before increasing marginally in 2012. As prices rise later in 2011 and into 2012, more homeowners will be encouraged to list their homes for sale.

Figure 3



[1] Required income is mortgage carrying costs divided by 0.32 to reflect the usual 32 per cent gross debt service ratio. Mortgage carrying costs are calculated based on the average MLS® price, a 10 per cent down payment, the forecast of the posted fixed five-year mortgage rate and the longest amortization period available.

A balanced market in 2011 will mean little to no price growth. After strong price appreciation of more than ten per cent between the fourth quarter of 2009 and the third quarter of 2010, the average price of an existing home has declined. Buyers, in anticipation of higher mortgage carrying costs and the HST drove prices higher in 2010. Prices will increase only marginally for the rest of 2011 and into 2012. Although the economy is improving, consumers are more cautious and not overextending themselves when purchasing a home. Also, the stock of existing homes now includes more town homes and apartments. The more modest homes being purchased will keep the average price below the peak level recorded in the third quarter of 2010.

Barrie remains a fairly affordable market. Although incomes are expected to grow this year and next and prices to remain flat, higher mortgage carrying costs will mean that the gap between the actual and required income will narrow. First-time buyers, who have incomes less than the average, will take longer to enter the market.

New Homes Market

Starts to Decline in 2011

Total new housing starts in Barrie have been trending lower since 2008. This trend will continue in 2011, as housing starts are expected to decline from 2010. Construction of both single-detached and other types of housing will decline in 2011. Single-detached houses remain the home of choice in Barrie and will account for nearly two-thirds of all new construction expected in 2011. Although in the long term, construction is shifting towards the more affordable town homes and apartments, in 2011 there will be a very modest shift back to singles. In 2012, with the economy continuing to improve, overall new housing starts will increase marginally.

Several reasons are behind the decline in housing starts. With population growth slowing, the need for new homes to house these new residents has diminished. Migration is less than half of what it was prior to 2006. Meanwhile, apart from demographics, the recent decrease in new housing starts can be attributed to market conditions. Despite an improving economy, homebuyers are shying away from the relatively more expensive new home market. Homebuyers want homes which they can comfortably afford to satisfy their housing needs and they look for a home in the resale market first. The other major reason for less new home construction is a question of space. With less land available, particularly in the City of Barrie, new housing construction has declined. The number of lots for single-detached home construction had declined significantly in the past few years.

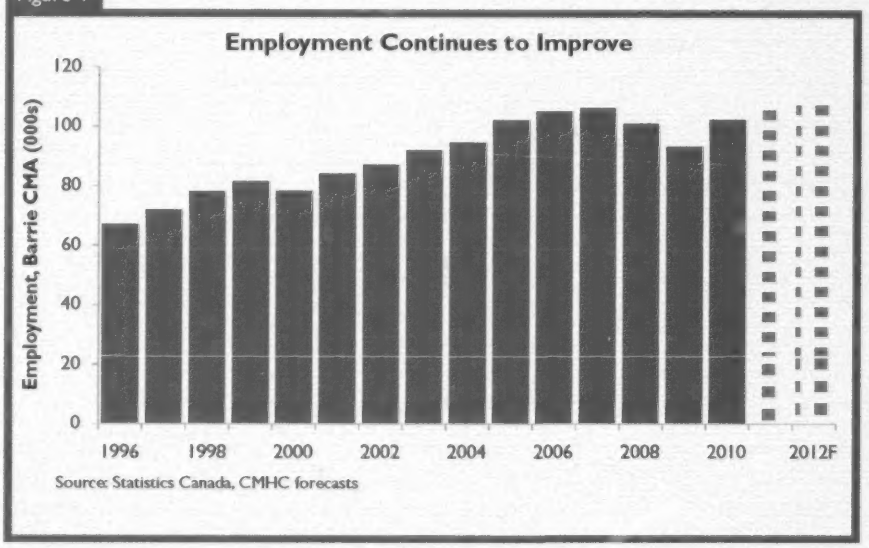
With new housing construction moving gradually away from a singles-dominated market, the price commanded by new single-detached homes will moderate. The average new detached price has been trending down since early 2010, and is expected to stabilize in 2011 below the average of the past year. In 2012, with some modest growth in demand for single-detached homes, prices will begin to appreciate, but quite modestly.

The Economy

Economy Continues Upward Trajectory

Employment will continue to increase in 2011, a trend that started in 2009 after the recession. Following very strong employment growth in 2010, growth in 2011 will build on this momentum but the rate of growth

Figure 4



will slow. In Barrie, employment has not yet regained the level reached before the the economic downturn.

Employers' confidence continues to grow as economic activity moves closer to pre-economic slowdown levels. Both the goods and services sectors point to positive growth numbers, as the economic recovery in Barrie is slow and steady, but broadly based. Despite the very positive signs to the economic recovery, some down-side risks are still on the horizon. In 2012, the trend will be further expansion, but by a more subdued amount.

The labour force will expand in 2011, but not as robustly as employment. By end of 2010 with the improving employment prospects, a vast majority of potential employees responded quickly and entered the labour force in search of those new jobs. As a result, and combined with lower population growth, there will be slower labour force growth in 2011. The stronger increase to employment, compared to the labour force, will push the unemployment rate down further in 2011. In 2012, as employment continues to expand at a faster pace than the labour force, the unemployment rate will continue to decline. The unemployment rate will move toward the level of the mid-2000s.

In 2010, as employers had more people to choose from in the labour market, average weekly earnings declined. As the labour market tightens in 2011 and 2012, weekly earnings will grow.

Net migration will contribute less to population growth in 2011 and 2012. Over the next two years, the pull to the strong economies of Western Canada will increase, reducing net migration into Barrie. Migration levels will fall to the lowest level in more than 15 years.

Mortgage Rate Outlook

On April 12th, the Bank of Canada announced that it was leaving the Target for the Overnight Rate unchanged at 1.0 per cent. The last increase in the overnight rate occurred on September 8, 2010 when the Bank of Canada raised it by 25 basis points. The Bank of Canada is expected to resume raising the overnight rate in the fourth quarter of 2011. Mortgage rates, particularly short term mortgage rates and variable mortgage rates, are expected to remain at historically low levels.

According to CMHC's base case scenario, posted mortgage rates will remain relatively flat in 2011 before increasing moderately in 2012. For 2011, the one-year posted mortgage rate is assumed to be in the 3.1 to 3.5 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.1 to 5.6 per cent range. For 2012, the one-year posted mortgage rate is assumed to be in the 3.4 to 4.3 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.2 to 6.3 per cent range.

Rates could, however, increase at a faster pace if the economy ends up recovering more quickly than presently anticipated. Conversely, rate increases could be more muted if the economic recovery is more modest in nature.

Forecast Summary Barrie CMA Spring 2011							
	2008	2009	2010	2011f	% chg	2012f	% chg
Resale Market							
MLS® Sales	4,058	4,326	4,105	3,850	-6.2	3,900	1.3
MLS® New Listings	8,212	7,502	8,008	8,000	-0.1	8,150	1.9
MLS® Average Price ($)	264,034	263,959	281,966	284,000	0.7	287,000	1.1
New Home Market							
Starts:							
Single-Detached	858	292	442	375	-15.2	385	2.7
Multiples	558	135	240	195	-18.8	194	-0.5
Semi-Detached	12	0	4	3	-25.0	4	33.3
Row/Townhouse	170	0	133	112	-15.8	120	7.1
Apartments	376	135	103	80	-22.3	70	-12.5
Starts - Total	1,416	427	682	570	-16.4	579	1.6
Average Price ($):							
Single-Detached	358,841	431,237	407,200	400,000	-1.8	401,000	0.3
New Housing Price Index (% chg.) (Ontario)	3.5	0.1	2.4	n/a	-	n/a	-
Rental Market							
October Vacancy Rate (%)	3.5	3.8	3.4	3.2	-	3.0	-
Two-bedroom Average Rent (October) ($)	954	961	968	977	0.9	986	0.9
Economic Overview							
Mortgage Rate (1 year) (%)	6.70	4.02	3.49	3.23	-	3.76	-
Mortgage Rate (5 year) (%)	7.06	5.63	5.61	5.45	-	5.94	-
Annual Employment Level	100,900	93,300	102,200	106,400	4.1	108,000	1.5
Employment Growth (%)	-4.9	-7.5	9.5	4.1	-	1.5	-
Unemployment rate (%)	5.6	9.4	9.5	8.2	-	8.1	-
Net Migration	1,119	998	1,111	800	-28.0	600	-25.0

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = apartments 3+

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